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INFO RUEHCHI/AMCONSUL CHIANG MAI PRIORITY 6176
RUCNASE/ASEAN MEMBER COLLECTIVE PRIORITY
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SUBJECT: Additional Thai Government Measures to Stimulate the Economy

REF: BANGKOK 175 (Economic Stimulus Plan)

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¶1. (SBU) Summary: The Thai government has approved additional measures to stimulate economic growth in the face of the mounting global economic crisis. They focus on off-shore borrowing to finance job-creating projects and guarantee business lending (USD 2 billion), and a stand-by credit facility for state-owned enterprises or SOEs (USD 5.7 billion). The RTG, constrained by Thai law on its deficit spending level, is engaging the Asian Development Bank (ADB), the World Bank, and the Japan International Cooperation Agency (JICA) for its potential lending needs. End Summary

¶2. (SBU) Comment: While the Ministry of Finance (MOF) will likely submit details on qualified projects related to the off-shore borrowing plan to the Cabinet within the coming weeks, it is unclear when the RTG will submit the entire off-shore borrowing plan to Parliament. Details on the types of projects the RTG will focus on are scarce, but they will likely focus on transportation (roads and bridges), healthcare (hospital and medical equipment), and agriculture (dams). The off-shore borrowing plan may also be a back-up to going through capital markets for funds in the event market conditions make a future domestic bond issuance difficult. Regardless of the sectors targeted, this additional program to energize the Thai economy through infrastructure construction comes as good news to analysts who have called for such investment spending since the RTG first announced its economic stimulus package. End Comment.

¶3. (SBU) The Thai Cabinet approved February 3 a Ministry of Finance proposal for an off-shore borrowing program worth USD 2 billion (approximately 70 billion baht), the third part of the Abhisit government's economic stimulus plan to help revive the domestic economy (reftel details the first two parts, a 116.7 billion baht (USD 3.3 billion) fiscal spending package and a tax-break package worth 40 billion baht (USD 1.1 billion). The borrowing program, geared toward state investment projects and an expansion of loans by the state banks, contains a mix of both short/medium and longer-term measures that the RTG hopes will create employment. The RTG will now forward the proposal to Parliament for consideration. The Cabinet also approved a separate measure, a short-term loan facility for state-own enterprises (SOEs), valued at 200 billion baht (USD 5.7 billion).

Off-shore Borrowing Program

14. (SBU) According to the MOF, funds raised through the off-shore borrowing program will be used for:

A) Increasing capital within the state banks (also known as Specialized Financial Institutions or SFIs) for them to extend credit to, or guarantee lending for, exporters, small and medium scale entrepreneurs, and real-estate businesses. Details have not yet been released on which state banks will receive funds, or how much. In a related move, the RTG Economic Ministerial Committee (consisting of the key economic ministers) decided February 11 that 8 billion baht (USD 229 million) will be used to increase capital at two state banks, the Export and Import Bank of Thailand and the Small Business Credit Guarantee Corporation or SBCG). It did not, however, specify whether the source of funds for this initiative will be the offshore borrowing program or the RTG budget. The full cabinet needs to approve the measure, and may do so at its meeting scheduled February 17. In the meantime, the Economic Ministerial Committee asked the MOF to determine what the source of funds should be. Regardless, the RTG expects the banks to expand business lending by approximately 250 billion baht (USD 7.1 billion).

B) Investment in state-led, medium scale projects with the goal of job creation; to be completed within 15 months.

C) Investment in state-led, large scale infrastructure projects with the goal of upgrading Thailand's competitiveness and productivity; to be completed within 36 months.

D) Other investment projects/activities yet to be determined.

15. (SBU) The RTG plans to engage the Asian Development Bank (ADB), World Bank, and Japan International Cooperation Agency (JICA) to negotiate potential loans of USD 500 million, USD 1 billion, and USD 500 million (respectively). According to the MOF, borrowing

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costs from these three agencies, including swap rates (approximately 2.38-3.70 percent annually) are lower than domestic borrowing costs (3.45 percent annually for 10-year bonds as of January 15).

16. (SBU) The RTG will reportedly set up a committee to screen and prioritize projects for the Cabinet's approval, to monitor/supervise the spending program, and to report to the Minister of Finance, Cabinet, and Parliament on the success of the projects and the loan disbursement process. The committee will consist of 10 members: the Permanent Secretary of Finance (Chair), the Deputy Permanent Secretary of Finance (Vice-Chair), the Director of the RTG's Budget Bureau (equivalent to the USG Office of Management and Budget), the Governor of the Bank of Thailand, the Secretary-General of the National Economic and Social Development Board (the RTG's economic planning agency), the Director-General of the MOF's Fiscal Policy Office, the Director-General of the MOF's State-own Enterprises Policy Office, and the Director-General, Deputy Director-General, and Director of the MOF's Public Debt Management Office.

17. (SBU) With the inclusion of this new borrowing program Thailand's public debt will rise to approximately 42.0 percent of GDP. Section 22 of the Thai Public Debt Management Act B.E. 2548 (2005) allows the RTG to borrow from international sources annually to finance economic and social development investment projects. The law limits off-shore borrowing to 10 percent of the annual budget appropriation (excluding any supplementary budget), thereby capping fiscal year's program at 183.5 billion baht. In addition to the 70 billion baht in new borrowing, the RTG has already committed to investing in prior projects worth 29.79 billion baht (USD 851 million). As such, the RTG still has 83.71 billion baht (USD 2.4 billion) available for additional measures this fiscal year, should they be needed.

Credit Facility for State-owned Enterprises

18. (SBU) The RTG Cabinet also approved February 3 a 200 billion baht short-term, stand-by credit facility, sourced from domestic financial institutions (both Thai and foreign-owned) and SFIs for State-owned Enterprises (SOEs) to use as for contingency borrowing. The facility, which does not require parliamentary approval, is only

partially guaranteed by the RTG (although the RTG will retain the ability, on a case-by-case basis, to provide a full guarantee). (NOTE: Section 28 of Thailand's Public Debt Management Act requires that all loan guarantees by the RTG not exceed 20 percent of the total yearly budget; no more than 367 billion baht or USD 10.5 billion in fiscal year 2009. End Note.)

19. (SBU) As the MOF explained at its presentation to the Cabinet, SOEs can generally access funds through bond issuances without state guarantee and term loans; this short-term facility is intended to provide an additional channel for SOEs to access funds. The facility will remain open for three years, although loan maturities may extend only for 18 months. The interest rate charged will be based on the average fixed (6 month) time deposit rates of Thailand's four largest commercial banks (Bangkok Bank, Krung Thai Bank, Siam Commercial Bank, and Kasikorn Bank).

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